

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Charter Township of Shelby</u>	County Macomb
Audit Date December 31, 2004	Opinion Date March 31, 2005	Date Accountant Report Submitted To State: June 15, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): Plante & Moran, PLLC			
Street Address 10 South Main Street, Suite 200	City Mt. Clemens	State MI	ZIP 48043
Accountant Signature 			

Charter Township of Shelby Macomb County, Michigan

**Financial Report
with Supplemental Information
December 31, 2004**

Charter Township of Shelby

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Independent Auditor's Report

To the Board of Trustees
Charter Township of Shelby
Macomb County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of Shelby's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of Shelby as of December 31, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, budgetary comparison schedules, and pension system schedule of funding progress (as identified in the table of contents) are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

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To the Board of Trustees
Charter Township of Shelby
Macomb County, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of Shelby's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

March 31, 2005

Charter Township of Shelby

Management's Discussion and Analysis

Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities are both new and provide information about the activities of the Charter Township of Shelby on a government-wide basis. They are designed to present a longer-term view of the Township's finances. Fund financial statements, also slightly changed from prior years, follow the above-mentioned statements and illustrate how the services provided by the Township were financed in the short term, as well as what remains for future spending. Additionally, fund financial statements report the Township's operations in more detail than the government-wide financial statements.

In a condensed format, the table below shows the comparison of net assets (in millions of dollars) as of December 31, 2004 to the prior year:

TABLE I

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current assets	\$ 57.6	\$ 50.3	\$ 40.6	\$ 40.1	\$ 98.2	\$ 90.4
Noncurrent assets:						
Restricted assets	-	-	7.3	10.1	7.3	10.1
Capital assets	34.1	29.4	105.7	100.6	139.8	130.0
Total assets	91.7	79.7	153.6	150.8	245.3	230.5
Liabilities:						
Current liabilities	26.2	24.2	6.9	7.6	33.1	31.8
Long-term liabilities	2.4	3.0	28.1	31.2	30.5	34.2
Total liabilities	28.6	27.2	35.0	38.8	63.6	66.0
Net assets:						
Invested in capital assets -						
Net of related debt	32.5	27.5	80.6	77.1	113.1	104.6
Restricted	13.5	11.4	5.1	6.1	18.6	17.5
Unrestricted	17.1	13.6	32.9	28.8	50.0	42.4
Total net assets	<u>\$ 63.1</u>	<u>\$ 52.5</u>	<u>\$ 118.6</u>	<u>\$ 112.0</u>	<u>\$ 181.7</u>	<u>\$ 164.5</u>

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

The Township's combined net assets increased 10.4 percent from a year ago, increasing from \$164.5 million to \$181.7 million. A review of the governmental activities, separate from the business-type activities, shows an increase of approximately \$10.6 million in net assets, or 20 percent, during fiscal year 2004. This increase was the result of road paving, intersection renovations, and numerous capital projects. The Township continues to expand its campus through land acquisition in preparation for building construction, the anticipated downtown area project, and recreation. The Township's active recreation potential grew through the generous donation of land and funding by Ford Motor Company. Ford Field is currently under development into five baseball and softball diamonds for both our little league and adult softball games. The business-type activities experienced a 5.8 percent increase in net assets. This was primarily due to contributions of water and sewer lines by developers and the continued growth in the customer base.

Unrestricted net assets for the governmental activities were \$17.1 million at December 31, 2004. This amount represents the part of net assets that is available to finance day-to-day operations and future growth of the Township.

The following table shows the changes in net assets (in million of dollars) as of December 31, 2004 and the prior year:

TABLE 2

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenue						
Program revenue:						
Charges for services	\$ 7.1	\$ 6.4	\$ 15.9	\$ 15.4	\$ 23.0	\$ 21.8
Operating grants and contributions	0.5	0.4	-	-	0.5	0.4
Capital grants and contributions	3.5	0.2	5.2	6.5	8.7	6.7
General revenue:						
Property taxes	25.2	23.7	-	-	25.2	23.7
State-shared revenue	5.1	5.4	-	-	5.1	5.4
Interest	0.5	0.4	0.6	0.5	1.1	0.9
Cable fees and other	1.2	0.8	-	-	1.2	0.8
Special item - Special assessment refunds	-	-	-	(1.7)	-	(1.7)
Total revenue	43.1	37.3	21.7	20.7	64.8	58.0

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

TABLE 2 (Continued)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Program Expenses						
General government	\$ 7.7	\$ 7.5	\$ -	\$ -	\$ 7.7	\$ 7.5
Public safety	18.9	17.8	-	-	18.9	17.8
Public works	0.6	1.0	-	-	0.6	1.0
41st District Court	1.8	1.7	-	-	1.8	1.7
Recreation and culture	3.3	3.2	-	-	3.3	3.2
Interest on long-term debt	0.1	0.1	-	-	0.1	0.1
Shelby Manor senior housing	-	-	1.2	1.2	1.2	1.2
Water and sewer	-	-	14.2	15.0	14.2	15.0
Total program expenses	32.4	31.3	15.4	16.2	47.8	47.5
Change in Net Assets	10.7	6.0	6.3	4.5	17.0	10.5
Net Assets - Beginning of year (Restated)	52.5	46.5	112.3	107.5	164.8	154.0
Net Assets - End of year	<u>\$ 63.2</u>	<u>\$ 52.5</u>	<u>\$ 118.6</u>	<u>\$ 112.0</u>	<u>\$ 181.8</u>	<u>\$ 164.5</u>

Governmental Activities

The Township's total governmental revenues increased by approximately \$5.8 million from the last fiscal year. Although state-shared revenue decreased by \$300,000, property tax and charges for services increased by \$2.1 million and interest on investments showed a recovery of 25 percent, moving from \$400,000 to \$500,000. The contribution of Ford Motor Company land for the new Ford Field Ball Park attributed to a \$3.3 million increase in capital grants and contributions. The Township continues to enjoy a long period of growth in residential homes and development of a large business and industrial tax base. This growth mitigates some of the impact of state-shared revenues and other economy-driven fluctuations.

Expenses increased by about \$1.1 million, or 3.8 percent, over the last fiscal year in total governmental activity. This increase resulted from the continued growth of Shelby Township and the various needs of the community. General government services increased in cost by 2 percent over year 2003. Public safety increased by 7 percent due primarily to expenditures earmarked for future capital projects, increases in many operating expenditures such as vehicle insurance and gasoline, and decreases in pension contributions because of the millage adjustment between the Police Fund and Police and Fire Pension Fund. Public works experienced a 40 percent decline in cost from year 2003 because of delays in sidewalk construction plans. Township management continues to support a Postemployment Benefit Fund and obtained an actuarial funding recommendation. Discussions continue at board level on the funding options available under Act 451 and the most judicious process to follow in the fiscal challenge of providing health care to our retired employees.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Business-type Activities

The Township's business-type activities are recorded in the Water and Sewer Fund and Senior Housing Fund. Revenues of the Township's business-type activities increased 4.8 percent, from \$20.7 million to \$21.7 million. The net increase of \$1 million in total revenue was the result of several offsetting factors. Water and Sewer Fund operating revenues increased by approximately \$.5 million. The impact of both a water rate increase and a 3.3 percent increase in the number of customers was, for the most part, offset by a reduction in units sold. Year 2004 units sold decreased by 6.5 percent compared to year 2003 due to wetter and cooler than normal weather conditions experienced in the spring and summer of 2004. Water and Sewer Fund capital grants and contributions decreased \$1.3 million primarily as a result of a reduction in infrastructure (water and sewer lines) contributions from developers. This noncash/nonoperating component of revenues can fluctuate significantly from year to year due to the cyclical nature of large long-term construction and development projects. Interest income increased \$.1 million in 2004 compared to 2003 as a result of the overall increase in interest rates experienced in 2004. Lastly, revenues were reduced in 2003 by a \$1.7 million special item related to an accrual for special assessment refunds. Shelby Manor Fund operating revenues remained flat at \$1.6 million for both 2004 and 2003.

Business-type activity expenses decreased 4.9 percent, from \$16.2 million in 2003 to \$15.4 million in 2004. This net decrease of \$.8 million in expenses was also the result of several offsetting factors. Operating expenses and depreciation increased \$.6 million as a result of the continued growth in water and sewer facilities and in the number of customers. Although wholesale water rates increased in 2004, purchased water costs remained flat. Expenses, as with revenues, were driven down by spring and summer weather in 2004 and a 29 percent volume reduction in lost and unaccounted for water purchases. Interest expense decreased \$1.5 million due to the fact that 2003 interest expense included a \$1.6 million accrual for interest on the special assessment refunds. Shelby Manor Fund expenses remained flat at \$1.2 million for both 2004 and 2003.

By the end of year 2004, the water and sewer department in conjunction with other Township personnel completed a massive multi-year special assessment district refund to 80 water and sewer districts involving approximately 5,500 customers.

The Township's Water and Sewer Fund experienced an overall 6.8 percent increase in cost of service from 2003 to 2004 (excluding the impact of the special assessment refund). This increase is attributed to contractual increases and higher depreciation and interest costs related to recent bond issues. This fund's water segment provides water, which is purchased from the City of Detroit water system, to 23,130 accounts, or nearly all its residents and commercial entities. Rate increases for water from Detroit are apportioned to residents at the same level received by the Township. The Township also provides sewage treatment to 11,972 accounts, or approximately half its residents, through the Macomb County sewage treatment plant.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

During fiscal year 2004, the number of water and sewer users increased 3.3 percent and 5.6 percent, respectively. During this same time, however, the water and sewer system saw approximately a 6.5 percent decrease in the volume of water sold and no change from 2003 to 2004 in the sewer volumes treated. This anomaly is attributed to the weather conditions cited above.

To provide for growing demands on its water and sewer system, the Township participates in a cost-share project with two adjoining communities for the Garfield Interceptor. In 2004, the Township began \$8,000,000 of water and sewer bond-funded construction projects that connect isolated sections of the system to improve system service, efficiency, and availability.

The Township's Funds

Our analysis of the Township's major funds begins on page 13, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Township as a whole. The Township board creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The Township's major funds for 2004 include the General Fund, the Police Fund, and the Fire Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township board and administration monitor and amend the budget to take into account unanticipated events that occur during fiscal year 2004 and acceleration of multi-year capital projects. The most significant amendment to the revenue budget during fiscal year 2004 was a decrease in anticipated state-shared revenue. This revenue decrease can be attributed to a continued statewide downturn in the economy. Even with the fluctuations in this component of General Fund revenues, the Township completed the year with a \$477,542 favorable variance between budgeted and actual revenues and a favorable expenditure budget variance of \$1,383,611 due primarily to timing shifts in infrastructure and other capital projects and the difficulty in predicting fluctuations in temporary labor needs, gasoline and utility costs, and the improvement and maintenance costs of aging Township buildings and parks.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

Capital Assets and Debt Administration

At the end of fiscal year 2004, the Township had \$166 million in historical cost invested in a wide range of capital assets, including land, buildings, fire equipment, computer equipment, water and sewer lines, and library books. These capital assets include Township infrastructure that includes roads, bridges, and intersections, in which it has invested since 1980. The infrastructure represents a usage right to these assets. The value of the infrastructure assets for governmental funds, net of depreciation contained in this report, is \$8.9 million and \$7.6 million for fiscal years 2004 and 2003, respectively. Enterprise Funds' infrastructure for 2004 and 2003 (including construction in progress), net of depreciation, is \$89.9 million and \$84.7 million, respectively (see notes to financial statements' Note 3 for additional information). Additionally, the value of buildings and improvements for the governmental activities, net of depreciation, is \$9.3 million and \$8.7 million for fiscal years 2004 and 2003, respectively. Enterprise Funds' buildings and improvements, net of depreciation, are \$13.9 million and \$14.0 million for 2004 and 2003, respectively.

During 2004, the Township performed a re-appraisal of current fixed assets. This included verification of existing assets at the current fixed asset threshold of \$5,000, and eliminating assets under that threshold. Some adjustments to historical costs balances were necessary (see Note 3).

Debt reported in these financial statements is related to the construction of the above-mentioned buildings and infrastructure and is reported as a liability on the statement of net assets (see notes to financial statements' Note 5 for additional information).

Economic Factors and Next Year's Budgets and Rates

Shelby Township reduced its property tax millage rate in 2004 from 9.4444 to 9.4104 as a result of the Headlee Amendment. These are the lowest millage rates since 1974. Strong expenditure controls and past growth in the Township's tax base have prevented millage rate increases for operations. Property taxes make up approximately 18 percent of the General Fund budget. Annual new growth and development in the Township have increased taxable value for all properties from \$2.665 billion to \$3.074 billion and are expected to continue at a steady rate for the next few years. The growth in Township property tax from new development will help to offset the fluctuations and uncertainty in state revenue sharing, which represents nearly 34 percent of the General Fund budget. The General Fund budget is prepared on the assumption that future increases in state-shared revenue are unpredictable due to state cutbacks and less sales tax receipts at the state level.

Charter Township of Shelby

Management's Discussion and Analysis (Continued)

On the expense side, the Township continues to operate with relatively low personnel costs and an efficient labor force. Our General Employee Pension Fund is fully funded. Our Police and Fire Pension Fund is funded at a level above the annual actuarial recommendation. Although pension fund contributions are affected by the fluctuations in the stock and bond market and these fluctuations may require additional funding in the future, in 2002, the Township restructured its property tax component to provide additional funding for the Police and Fire Pension Fund. At that time, this fund's millage rate increased from .5 to 1, which was accomplished by changing the Police Fund millage to ad valorem from special assessment. The restructuring of the millage components doubled property tax revenue to the Pension Fund. The reduction in the Police Fund property tax rate is offset by increased revenues through growth and personal property tax collections. The Township board aggressively pursues a permanent solution to pension and health care funding to spare future taxpayers the cost of funding present benefits. Because the Township is experience rated, we expect continued annual increases in medical costs of near 7 percent to 8 percent per year. With these costs and ongoing road, intersection, and sidewalk projects and other capital improvements, we anticipate the major governmental funds' expenditures will increase between 10 percent and 13 percent in the next budget year. We will adjust expenses to mirror the revenue base, having as a goal the continuation of the trend of excess revenues over expenses experienced since 1992.

The Township enjoys a strong bond rating of A1 from Moodys and AA from Standard and Poor's on its latest Water and Sewer revenue bonds. This, of course, reduces the interest rate costs when seeking financing in the bond market and gives the Township flexibility in planning for its many capital projects.

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions about this report or need additional information, we invite you to contact the Shelby Township finance department.

Charter Township of Shelby

Statement of Net Assets December 31, 2004

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments (Note 2)	\$ 30,886,542	\$ 34,384,881	\$ 65,271,423
Receivables:			
Customers	-	4,273,989	4,273,989
Taxes - Net of reserve for uncollectible taxes	23,889,236	-	23,889,236
Special assessments - Current	-	375,761	375,761
Other	352,975	25,688	378,663
Due from other governmental units	1,949,518	-	1,949,518
Internal balances	132,640	(132,640)	-
Inventories	-	191,968	191,968
Prepaid costs	399,787	283,766	683,553
Restricted assets (Notes 2 and 6)	-	7,256,554	7,256,554
Special assessments - Net of current portion	-	1,247,116	1,247,116
Capital assets not being depreciated (Note 3)	11,128,458	1,525,441	12,653,899
Capital assets being depreciated (Note 3)	22,928,499	104,200,911	127,129,410
Total assets	91,667,655	153,633,435	245,301,090
Liabilities			
Vouchers payable	903,220	2,064,060	2,967,280
Accrued and other liabilities	750,905	1,683,259	2,434,164
Current liabilities payable from restricted assets (Note 6)	-	190,000	190,000
Deferred revenue	24,031,946	1,496,865	25,528,811
Due to other governmental units	-	34,970	34,970
Noncurrent liabilities (Note 5):			
Due within one year	534,664	1,477,647	2,012,311
Due in more than one year	2,360,573	28,060,565	30,421,138
Total liabilities	28,581,308	35,007,366	63,588,674
Net Assets			
Invested in capital assets - Net of related debt	32,475,419	80,552,587	113,028,006
Restricted:			
Bond covenants (Note 6)	-	2,277,103	2,277,103
Donated cash for construction of park	75,385	-	75,385
Special assessments	-	2,918,056	2,918,056
Police and fire	13,266,268	-	13,266,268
Street lighting	140,060	-	140,060
Forfeitures	6,491	-	6,491
Unrestricted	17,122,724	32,878,323	50,001,047
Total net assets	\$ 63,086,347	\$ 118,626,069	\$ 181,712,416

Charter Township of Shelby

Functions/Programs	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental activities:				
General government	\$ 7,684,671	\$ 2,488,986	\$ 344,958	\$ 111,071
Public safety	19,031,541	1,147,005	87,565	18,348
Public works	631,370	-	-	-
41A District Court	1,779,648	2,398,905	45,724	-
Recreation and culture	3,283,144	1,061,783	21,000	3,328,000
Interest on long-term debt	63,385	-	-	-
Total governmental activities	32,473,759	7,096,679	499,247	3,457,419
Business-type activities:				
Water and sewer	14,146,810	14,290,741	-	5,213,882
Shelby Manor Senior Housing	1,211,584	1,564,284	-	-
Total business-type activities	15,358,394	15,855,025	-	5,213,882
Total primary government	<u>\$ 47,832,153</u>	<u>\$ 22,951,704</u>	<u>\$ 499,247</u>	<u>\$ 8,671,301</u>
			General revenues:	
			Property taxes:	
			General	
			Police	
			Fire	
			Police and fire pension	
			State-shared revenues	
			Interest	
			Other	
			Transfers	
				Total general revenues and transfers
			Change in Net Assets	
			Net Assets - Beginning of year	
			(as restated - See Note 3)	
			Net Assets - End of year	

Statement of Activities
Year Ended December 31, 2004

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business-type Activities	Total
\$ (4,739,656)	\$ -	\$ (4,739,656)
(17,778,623)	-	(17,778,623)
(631,370)	-	(631,370)
664,981	-	664,981
1,127,639	-	1,127,639
(63,385)	-	(63,385)
(21,420,414)	-	(21,420,414)
-	5,357,813	5,357,813
-	352,700	352,700
-	5,710,513	5,710,513
(21,420,414)	5,710,513	(15,709,901)
2,675,629	-	2,675,629
10,497,732	-	10,497,732
9,345,308	-	9,345,308
2,665,125	-	2,665,125
5,111,221	-	5,111,221
481,409	653,262	1,134,671
981,120	227,189	1,208,309
244,381	(244,381)	-
32,001,925	636,070	32,637,995
10,581,511	6,346,583	16,928,094
52,504,836	112,279,486	164,784,322
\$ 63,086,347	\$ 118,626,069	\$ 181,712,416

Charter Township of Shelby

Governmental Funds Balance Sheet December 31, 2004

	General Fund	Fire Fund	Police Fund	Other Nonmajor Governmental Funds	Total Governmental Funds
Assets					
Cash and investments (Note 2)	\$ 8,098,696	\$ 6,976,711	\$ 6,674,939	\$ 9,136,196	\$ 30,886,542
Receivables:					
Taxes	2,886,567	10,059,945	11,238,002	-	24,184,514
Reserve for uncollected taxes	(46,212)	(148,198)	(100,868)	-	(295,278)
Other	39,506	136,902	-	176,567	352,975
Due from other funds (Note 4)	4,790	-	3,128	135,000	142,918
Due from other governmental units	936,637	-	-	94,874	1,031,511
Prepaid costs	151,825	110,783	133,909	3,270	399,787
Total assets	<u>\$ 12,071,809</u>	<u>\$ 17,136,143</u>	<u>\$ 17,949,110</u>	<u>\$ 9,545,907</u>	<u>\$ 56,702,969</u>
Liabilities and Fund Balances					
Liabilities					
Vouchers payable	\$ 669,279	\$ 53,111	\$ 40,940	\$ 139,888	\$ 903,218
Accrued and other liabilities	126,667	405,743	214,617	3,878	750,905
Due to other funds (Note 4)	5,430	4,831	-	4,629	14,890
Deferred revenue	2,989,824	9,911,747	11,187,996	61,806	24,151,373
Total liabilities	3,791,200	10,375,432	11,443,553	210,201	25,820,386
Fund Balances					
Reserved for prepaid costs	151,825	110,783	133,909	3,270	399,787
Unreserved:					
Designated (Note 9)	6,228,008	194,858	317,989	5,844,038	12,584,893
Undesignated, reported in:					
General Fund	1,900,776	-	-	-	1,900,776
Special Revenue Funds	-	6,455,070	6,053,659	3,488,398	15,997,127
Total fund balances	8,280,609	6,760,711	6,505,557	9,335,706	30,882,583
Total liabilities and fund balances	<u>\$ 12,071,809</u>	<u>\$ 17,136,143</u>	<u>\$ 17,949,110</u>	<u>\$ 9,545,907</u>	<u>\$ 56,702,969</u>

Charter Township of Shelby

Governmental Funds **Reconciliation of Fund Balances to the Statement of Net Assets** **Year Ended December 31, 2004**

Fund Balances - Total Governmental Funds	\$ 30,882,583
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Amounts reported for governmental activities in the statement of activities are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	34,056,957
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Certain receivables are expected to be collected over several years and are not available to pay for current year expenditures	1,042,044
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Long-term liabilities are not due and payable in the current period and are not reported in the funds	<u>(2,895,237)</u>
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Net Assets of Governmental Activities	<u>\$ 63,086,347</u>
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Charter Township of Shelby

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended December 31, 2004

	General	Fire	Police	Other Nonmajor Governmental Funds	Total Governmental Funds
Revenue					
Taxes	\$ 2,675,629	\$ 9,345,308	\$ 10,497,732	\$ 2,665,125	\$ 25,183,794
Licenses and permits	2,041,839	-	-	-	2,041,839
Federal grants	-	-	15,203	132,372	147,575
State-shared revenue and grants	5,174,764	-	29,683	81,789	5,286,236
Grants from local units	408,023	-	1,250	-	409,273
Charges for services	692,127	930,687	144,177	805,076	2,572,067
Fines and forfeitures	2,490,054	-	-	26,302	2,516,356
Interest	260,529	96,338	107,137	17,405	481,409
Other revenue	1,111,822	86,271	528,459	20,771	1,747,323
Reimbursement from other funds for administrative services	394,500	-	-	-	394,500
Total revenue	15,249,287	10,458,604	11,323,641	3,748,840	40,780,372
Expenditures					
Current:					
General government	7,437,280	-	-	40,044	7,477,324
Public safety	24,000	7,839,197	9,442,548	2,749,739	20,055,484
Public works	330,139	-	-	234,411	564,550
Recreation and culture	2,725,063	-	-	566,450	3,291,513
41A District Court	-	-	-	1,863,649	1,863,649
Capital outlay	1,831,763	30,557	131,128	521,249	2,514,697
Debt service	-	-	-	173,385	173,385
Total expenditures	12,348,245	7,869,754	9,573,676	6,148,927	35,940,602
Excess of Revenue Over (Under) Expenditures	2,901,042	2,588,850	1,749,965	(2,400,087)	4,839,770
Other Financing Sources (Uses)					
Transfers in (Note 4)	105,817	-	34,410	4,959,826	5,100,053
Transfers out (Note 4)	(2,633,527)	(1,035,425)	(1,105,386)	(81,334)	(4,855,672)
Total other financing sources (uses)	(2,527,710)	(1,035,425)	(1,070,976)	4,878,492	244,381
Net Change in Fund Balances	373,332	1,553,425	678,989	2,478,405	5,084,151
Fund Balances - Beginning of year	7,907,277	5,207,286	5,826,568	6,857,301	25,798,432
Fund Balances - End of year	\$ 8,280,609	\$ 6,760,711	\$ 6,505,557	\$ 9,335,706	\$ 30,882,583

Charter Township of Shelby

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended December 31, 2004

Net Change in Fund Balances - Total Governmental Funds **\$ 5,084,151**

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	4,661,358
Revenue is reported in the statement of activities at the time it is earned, without regard to timeliness of collection	(1,368)
Repayment of bond principal and reduction in net pension obligation is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	860,798
Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>(23,428)</u>

Change in Net Assets of Governmental Activities **\$ 10,581,511**

Charter Township of Shelby

Proprietary Funds Statement of Net Assets December 31, 2004

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Major Fund - Shelby Manor	Total Enterprise Funds
Assets			
Current assets:			
Cash and cash equivalents (Note 2)	\$ 33,556,254	\$ 828,627	\$ 34,384,881
Receivables:			
Customers	4,273,989	-	4,273,989
Special assessments	375,761	-	375,761
Other	25,688	-	25,688
Due from other funds (Note 4)	3,969	-	3,969
Prepaid costs	283,323	443	283,766
Inventories	191,968	-	191,968
Total current assets	38,710,952	829,070	39,540,022
Noncurrent assets:			
Restricted assets (Notes 2 and 6)	7,256,554	-	7,256,554
Special assessment receivable - Net of current portion	1,247,116	-	1,247,116
Capital assets not being depreciated (Note 3)	205,441	1,320,000	1,525,441
Capital assets being depreciated (Note 3)	94,071,429	10,129,482	104,200,911
Total noncurrent assets	102,780,540	11,449,482	114,230,022
Total assets	141,491,492	12,278,552	153,770,044
Liabilities			
Current liabilities:			
Vouchers payable	2,039,735	24,325	2,064,060
Accrued and other liabilities	1,518,259	165,000	1,683,259
Due to other funds (Note 4)	171,104	475	171,579
Current liabilities payable from restricted assets (Note 6)	190,000	-	190,000
Current portion of long-term debt (Note 5)	967,647	510,000	1,477,647
Total current liabilities	4,886,745	699,800	5,586,545
Noncurrent liabilities:			
Deferred revenue	1,496,865	-	1,496,865
Long-term debt - Net of current portion (Note 5)	19,340,565	8,720,000	28,060,565
Total noncurrent liabilities	20,837,430	8,720,000	29,557,430
Total liabilities	25,724,175	9,419,800	35,143,975
Net Assets			
Investment in capital assets - Net of related debt	78,571,870	1,980,717	80,552,587
Restricted for:			
Bond covenants (Note 6)	2,277,103	-	2,277,103
Special assessment district	2,918,056	-	2,918,056
Unrestricted	32,000,288	878,035	32,878,323
Total net assets	<u>\$ 115,767,317</u>	<u>\$ 2,858,752</u>	<u>\$ 118,626,069</u>

Charter Township of Shelby

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended December 31, 2004

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Major Fund - Shelby Manor Senior Housing	Total Enterprise Funds
Operating Revenue			
Charges for sales and services	\$ 14,290,741	\$ -	\$ 14,290,741
Rent	-	1,564,284	1,564,284
Other	-	24,388	24,388
Total operating revenue	14,290,741	1,588,672	15,879,413
Operating Expenses			
Cost of water and sewage disposal	8,001,208	-	8,001,208
Operation and maintenance	3,301,378	486,704	3,788,082
General and administrative	182,642	-	182,642
Depreciation	1,702,483	256,497	1,958,980
Total operating expenses	13,187,711	743,201	13,930,912
Operating Income	1,103,030	845,471	1,948,501
Nonoperating Revenue (Expense)			
Investment income	644,710	8,552	653,262
Interest expense	(959,099)	(468,383)	(1,427,482)
Other revenue	202,801	-	202,801
Total nonoperating expense	(111,588)	(459,831)	(571,419)
Income - Before contributions	991,442	385,640	1,377,082
Capital Contributions			
Developers	2,086,224	-	2,086,224
Capital charges and front foot assessments	3,022,968	-	3,022,968
Special assessment districts	104,690	-	104,690
Total capital contributions	5,213,882	-	5,213,882
Transfers to Other Funds - Net (Note 4)	(144,381)	(100,000)	(244,381)
Change in Net Assets	6,060,943	285,640	6,346,583
Net Assets - Beginning of year - As restated (Note 3)	109,706,374	2,573,112	112,279,486
Net Assets - End of year	<u>\$ 115,767,317</u>	<u>\$ 2,858,752</u>	<u>\$ 118,626,069</u>

Charter Township of Shelby

Proprietary Funds Statement of Cash Flows Year Ended December 31, 2004

	Business-type Activities		
	Enterprise Major Fund - Water and Sewer	Enterprise Major Fund - Shelby Manor Senior Housing	Total Enterprise Funds
Cash Flows from Operating Activities			
Receipts from customers	\$ 17,271,406	\$ 1,564,284	\$ 18,835,690
Payments to suppliers - Goods and services	(12,406,334)	(450,804)	(12,857,138)
Payments to employees	(1,358,225)	-	(1,358,225)
Other inflows	202,801	-	202,801
Net cash provided by operating activities	3,709,648	1,113,480	4,823,128
Cash Flows from Capital and Related Financing Activities			
Collection of special assessments - Principal and interest	764,759	-	764,759
Operating transfers out	(144,381)	(100,000)	(244,381)
Refund of S.A. districts	(3,423,151)	-	(3,423,151)
Collection of capital charges and front foot assessments	3,022,968	-	3,022,968
Purchase of capital assets	(4,746,994)	-	(4,746,994)
Cash received from administrative and miscellaneous fees			
Principal and interest paid on long-term debt	(2,084,648)	(928,383)	(3,013,031)
Net cash used in capital and related financing activities	(6,611,447)	(1,028,383)	(7,639,830)
Cash Flows from Investing Activities - Interest received on investments	471,626	8,552	480,178
Net Increase (Decrease) in Cash and Cash Equivalents	(2,430,173)	93,649	(2,336,524)
Cash and Cash Equivalents - Beginning of year	43,242,981	734,978	43,977,959
Cash and Cash Equivalents - End of year	<u>\$ 40,812,808</u>	<u>\$ 828,627</u>	<u>\$ 41,641,435</u>
Balance Sheet Classification of Cash and Cash Equivalents			
Cash and investments	\$ 33,556,254	\$ 828,627	\$ 34,384,881
Restricted investments (Notes 2 and 6)	7,256,554	-	7,256,554
Total cash and cash equivalents	<u>\$ 40,812,808</u>	<u>\$ 828,627</u>	<u>\$ 41,641,435</u>
Reconciliation of Operating Income to Net Cash from Operating Activities			
Operating income	\$ 1,103,030	\$ 845,471	\$ 1,948,501
Adjustments to reconcile operating income to net cash from operating activities:			
Depreciation	1,702,483	256,497	1,958,980
Other nonoperating revenue	202,801	-	202,801
Changes in assets and liabilities:			
Receivables	(513,250)	-	(513,250)
Due from other funds	9,262	-	9,262
Other assets	(28,018)	2,148	(25,870)
Accounts payable	465,238	16,032	481,270
Accrued and other liabilities	221,057	3,621	224,678
Deferred revenue	442,142	-	442,142
Due to other funds	104,903	(10,289)	94,614
Net cash provided by operating activities	<u>\$ 3,709,648</u>	<u>\$ 1,113,480</u>	<u>\$ 4,823,128</u>

Noncash Investing, Capital, and Related Financing Activities - During the year ended December 31, 2004, developers constructed water and sewer lines with an estimated value of \$2,090,000 and donated them to the Township's Water and Sewer Fund. In addition, there was one special assessment district created, which resulted in an increase to accounts receivable in the amount of approximately \$105,000.

Charter Township of Shelby

Fiduciary Funds Statement of Fiduciary Net Assets December 31, 2004

	Police and Fire Retirement System Trust Fund	Agency Funds
	<u>Fund</u>	<u>Agency Funds</u>
Assets		
Cash and cash equivalents (Note 2)	\$ 743,757	\$ 7,755,818
Investments:		
Corporate bonds and notes	5,220,346	-
U.S. government securities	830,747	-
Common and preferred stock	6,082,897	-
Long-term negotiable CDs	178,400	-
Mutual funds	24,056,443	-
Receivables:		
Taxes	2,840,394	-
Other	112,787	6,587
Due from other funds	2,730	1,751,480
Deposits	<u>-</u>	<u>361,153</u>
Total assets	40,068,501	<u><u>\$ 9,875,038</u></u>
Liabilities		
Vouchers payable	-	\$ 162,029
Due to other funds	8,666	1,705,962
Advance tax collections	-	6,058,271
Deposits	-	1,948,776
Deferred revenue	<u>2,840,394</u>	<u>-</u>
Total liabilities	<u>2,849,060</u>	<u><u>\$ 9,875,038</u></u>
Net Assets - Held in trust for pension systems	<u><u>\$ 37,219,441</u></u>	

Charter Township of Shelby

Fiduciary Funds **Statement of Changes in Fiduciary Net Assets** **Year Ended December 31, 2004**

	Police and Fire Retirement System Trust Fund
Additions	
Investment income:	
Interest and dividends	\$ 1,476,700
Net realized and unrealized gain on investments	2,303,710
Less investment expense	<u>(34,510)</u>
Net investment income	3,745,900
Contributions:	
Employer	3,265,125
Employee	<u>444,433</u>
Total contributions	<u>3,709,558</u>
Total additions	7,455,458
Deductions	
Benefit payments	3,360,196
Administrative expenses	<u>38,585</u>
Total deductions	<u>3,398,781</u>
Net Increase	4,056,677
Net Assets Held in Trust for Pension and Other Employee Benefits	
Beginning of year	<u>33,162,764</u>
End of year	<u><u>\$ 37,219,441</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Charter Township of Shelby (the "Township") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Charter Township of Shelby:

Reporting Entity

The Charter Township of Shelby was organized on November 20, 1978 under the provisions of Act 359 of P.A. 1947, as amended (Charter Township Act). The Township is governed by an elected seven-member board of trustees composed of the supervisor, clerk, treasurer, and four other trustees. The Township provides the following services as authorized by its charter: public safety (police and fire), highways and streets, sanitation, culture, recreation, public improvements, planning and zoning, and general administrative services.

Blended Component Units - The following component units are reported as if they were parts of the primary government in the financial statements:

- a. The Police and Fire Retirement System (the "System") has been blended into the Township's financial statements. The System is governed by a five-member pension board appointed by the board of trustees and includes one member of the Township's board. The System is reported as if it were part of the primary government because of the fiduciary responsibility that the Township retains relative to the operations of the retirement system.
- b. The Shelby Township Building Authority is governed by a five-member board that is appointed by the Township's board of trustees. Although it is legally separate from the Township, it is reported as if it were part of the primary government because its primary purpose is to provide certain facilities necessary for the operation of the Township's government and to finance and construct the Township's public buildings.

Note 1 - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from a legally separate component unit for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual Enterprise Funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note 1 - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Township considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: property taxes, state-shared revenue, and interest associated with the current fiscal period. All other revenue items are considered to be available only when cash is received by the Township. Conversely, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township reports the following major governmental funds:

- The General Fund is the Township's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.
- The Fire Special Revenue Fund accounts for all of the activities of the Township's fire department, except for the purchase of equipment.
- The Police Special Revenue Fund accounts for all of the activities of the Township's police department, except for the purchase of equipment.

The Township reports the following major proprietary funds:

- The Water and Sewer Fund accounts for the activities of the water distribution system and sewage collection system.
- The Shelby Manor Senior Housing Fund accounts for the activities of the Township's senior housing apartment complex.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Additionally, the Township reports the following fiduciary funds:

Police and Fire Retirement System Trust Fund - The Police and Fire Retirement System Trust Fund accounts for the activities of the police and fire employees' retirement system, which accumulates resources for pension benefit payments to qualified employees and for medical benefits provided to employees during retirement.

Agency Funds - The Agency Funds account for assets held by the Township in a trustee capacity or as an agent for individuals, organizations, and other governments.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Township has elected not to follow private sector standards issued after November 30, 1989 for its business-type activity.

As a general rule, the effect of interfund activity and the General Fund reimbursement for administrative expenses have been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Township's water and sewer function and various other functions of the Township. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. The principal operating revenue of the proprietary fund relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for the proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Tax Revenue

Properties are assessed as of December 31. The related property taxes become a lien and are billed on December 1 of the following year. These taxes are due on February 28 with the final collection date of March 1 before they are added to the county tax rolls. Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes are recorded as deferred revenue in each respective fund at December 31.

The 2003 taxable valuation of the Township totaled \$2,659,089,361, on which ad valorem taxes levied consisted of 1.0000 mills for the Township's operating purposes, 3.9387 mills for police protection, 3.5053 mills for fire operating purposes, and 1.0000 mills for police and fire pension. The ad valorem taxes raised \$2,654,317 for general operations, \$10,455,003 for police protection, \$9,304,579 for fire operations, and \$2,654,317 for police and fire pension. These amounts are recorded in their respective funds as tax revenue.

Assets, Liabilities, and Net Assets or Equity

Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less as of December 31, 2004. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid costs in both government-wide and fund financial statements.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Restricted Assets - The revenue bonds of the Enterprise Fund require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets. Also, the Township has restricted assets for unspent bond proceeds.

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., amounts paid to the Road Commission for the intangible right to use the roads), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	20-35 years
Water systems	65 years
Sewer systems	65 years
Buildings and improvements	20-50 years
Machinery and equipment	5-20 years
Vehicles	8 years
Furniture and fixtures	5-20 years
Library books	8 years

Compensated Absences - The Township allows employees to accumulate earned but unused sick and vacation pay benefits. The government-wide and proprietary statements accrue all vacation and personal pay as it is earned, and sick pay as it is used or vested (whichever is earlier). A liability for these amounts is reported in governmental funds as it comes due for payment (when the time is taken off, or employees terminate).

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Construction Code Act - The Township tracks the results of building department operation in the General Fund in accordance with Michigan Public Act 245 of 1999. The Township is required to maintain an accounting system that separately accumulates revenues and expenditures related to the building department function. As required under the provision of the Act, the Township adopted this accounting treatment effective January 1, 2000. A summary of the activity since January 1, 2000 is as follows:

Cumulative expenditures over revenue - January 1, 2004		\$ (888,925)
2004 building department activity:		
Permit revenue	\$ 2,039,695	
Expenditures	<u>(1,573,645)</u>	
Excess of revenue over expenditures		<u>466,050</u>
Cumulative expenditures over revenue - December 31, 2004		<u><u>\$ (422,875)</u></u>

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments

The investment policy adopted by the board in accordance with Public Act 20 of 1943 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, commercial paper rated at the time of purchase at the highest classification established by not less than two standard rating services and that matures not more than 270 days after the date of purchase, repurchase agreements of bonds, securities, and other obligations of the United States, bankers' acceptances of the United States banks, obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service, interlocal agreements organized under the Urban Cooperation Act of 1967, PA 7, MCL 124.501 to MCL 124.512, investment pools organized under the Surplus Funds Investment Pool Act of 1982, PA 367, MCL 129.11 to MCL 129.118, or investment pools organized under the Local Government Pool Act of 1985, PA 121, MCL 129.141 to MCL 129.150.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government
Cash and investments	\$ 30,886,542	\$ 34,384,881	\$ 44,868,408	\$ 110,139,831
Restricted assets - Cash and investments	-	7,256,554	-	7,256,554
Total	<u>\$ 30,886,542</u>	<u>\$ 41,641,435</u>	<u>\$ 44,868,408</u>	<u>\$ 117,396,385</u>

The breakdown between deposits and investments for the Charter Township of Shelby is as follows:

Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 46,197,521
Investments in securities, mutual funds, and similar vehicles	71,195,064
Petty cash or cash on hand	<u>3,800</u>
Total	<u>\$ 117,396,385</u>

Note 2 - Deposits and Investments (Continued)

Deposits

The bank balance of the Township's deposits is \$46,201,320, of which approximately \$1,800,000 is covered by federal depository insurance and the remainder was uninsured and uncollateralized. The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds.

Investments

The retirement system is also authorized to invest in certain reverse purchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets have exceeded \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the Township or its agent in the Township's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Township's name; and

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Township's name.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 2 - Deposits and Investments (Continued)

At year end, the Township's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Commercial paper	\$ -	\$ -	\$ 11,771,018	\$ 11,771,018
Government investments	-	-	9,976,435	9,976,435
Pension trust:				
U.S. government securities	-	-	830,747	830,747
Corporate bonds	-	-	5,220,346	5,220,346
Stocks	-	-	6,082,897	6,082,897
Long-term negotiable CDs	-	-	178,400	178,400
Total primary government	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,059,843</u>	34,059,843
Investments not subject to categorization:				
Bank investment pools				11,019,543
Pension trust - Mutual funds				24,056,443
Interlocal agreement investment pools				<u>2,059,235</u>
Total investments				<u>\$ 71,195,064</u>

The bank investment pools, mutual funds, and interlocal agreement investment pools are not categorized because they are not evidenced by securities that exist in physical or book-entry form. The mutual funds are registered with the SEC, the bank investment pools are regulated by the Michigan Banking Act, and investments under the interlocal agreement (MBIA-CLASS) are regulated by the Urban Cooperation Act. The fair value of the position in the bank investment pools and interlocal agreement pools is the same as the value of the pool shares. Management believes that the investments in the funds comply with the investment authority noted above.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 3 - Capital Assets

Capital asset activity of the Township's governmental and business-type activities was as follows:

	Balance January 1, 2004	Additions	Disposals and Adjustments	Balance December 31, 2004
Governmental Activities				
Capital assets not being depreciated - Land	\$ 8,028,458	\$ 3,100,000	\$ -	\$ 11,128,458
Capital assets being depreciated:				
Infrastructure	10,674,189	1,356,961	-	12,031,150
Buildings and improvements	13,415,717	1,068,118	(399,964)	14,083,871
Vehicles	4,547,625	209,521	223,231	4,980,377
Library books	2,000,000	-	-	2,000,000
Machinery and equipment	5,772,717	115,657	(1,412,401)	4,475,973
Subtotal	36,410,248	2,750,257	(1,589,134)	37,571,371
Accumulated depreciation:				
Infrastructure	3,024,280	346,919	(314,759)	3,056,440
Buildings and improvements	4,708,426	435,120	(367,094)	4,776,452
Vehicles	3,165,270	406,923	(207,436)	3,364,757
Library books	1,000,000	-	-	1,000,000
Machinery and equipment	3,145,131	393,893	(1,093,801)	2,445,223
Subtotal	15,043,107	1,582,855	(1,983,090)	14,642,872
Net capital assets being depreciated	21,367,141	1,167,402	393,956	22,928,499
Net capital assets	\$ 29,395,599	\$ 4,267,402	\$ 393,956	\$ 34,056,957

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 3 - Capital Assets (Continued)

	Balance January 1, 2004 (Restated)	Additions	Disposals and Adjustments	Balance December 31, 2004
Business-type Activities				
Capital assets not being depreciated - Land	\$ 1,525,441	\$ -	\$ -	\$ 1,525,441
Capital assets being depreciated:				
Buildings and improvements	17,156,072	10,428	-	17,166,500
Vehicles	639,984	3,073	(53,235)	589,822
Furniture and fixtures	645,753	-	9	645,762
Water systems	31,621,219	2,884,018	-	34,505,237
Sewer systems	69,707,953	3,186,774	-	72,894,727
Construction in progress	2,307,577	4,534,396	(3,785,480)	3,056,493
Subtotal	122,078,558	10,618,689	(3,838,706)	128,858,541
Accumulated depreciation:				
Buildings and improvements	2,837,690	338,475	-	3,176,165
Vehicles	535,943	43,314	(53,235)	526,022
Furniture and fixtures	436,066	24,902	-	460,968
Water systems	6,756,863	569,618	-	7,326,481
Sewer systems	12,185,323	982,671	-	13,167,994
Subtotal	22,751,885	1,958,980	(53,235)	24,657,630
Net capital assets being depreciated	99,326,673	8,659,709	(3,785,471)	104,200,911
Net capital assets	<u>\$ 100,852,114</u>	<u>\$ 8,659,709</u>	<u>\$ (3,785,471)</u>	<u>\$ 105,726,352</u>

Prior Period Adjustment - Shelby Manor's net assets have been increased to correct the accumulated depreciation as of January 1, 2004, based on an updated appraisal performed during the year.

Shelby Manor net assets - January 1, 2004 -
As previously reported \$ 2,334,347

Capital assets - Accumulated depreciation adjustment 238,765

Shelby Manor net assets - January 1, 2004 - As restated \$ 2,573,112

Net income of Shelby Manor for the year ended December 31, 2003 was reduced by approximately \$17,000 for this adjustment.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 3 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 477,197
Public safety	503,453
Public works	329,221
Recreation and culture	270,985
41A District Court	<u>1,999</u>

Total governmental activities	<u>\$ 1,582,855</u>
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Business-type activities:

Water and sewer	\$ 1,702,483
Shelby Manor	<u>256,426</u>

Total business-type activities	<u>\$ 1,958,909</u>
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Note 4 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds		
General Fund	Fire Special Revenue Fund	\$ 4,315
	Shelby Manor Fund	<u>475</u>
	Total General Fund	4,790
Police Special Revenue Fund	Fire Special Revenue Fund	382
	General Fund	1,593
	Water and Sewer Fund	1,134
	Nonmajor Fund	<u>19</u>
	Total Police Special Revenue Fund	3,128
Water and Sewer Fund	General Fund	3,835
	Fire Special Revenue Fund	<u>134</u>
	Total Water and Sewer Fund	3,969
Nonmajor Governmental Fund	Water and Sewer Fund	135,000

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 4 - Interfund Receivables, Payables, and Transfers (Continued)

Receivable Fund	Payable Fund	Amount
Due to/from Other Funds (Continued)		
Agency Funds	Water and Sewer Fund	\$ 34,970
	Nonmajor Fund	<u>4,610</u>
	Total Agency Fund	<u>39,580</u>
	Total	<u>\$ 186,467</u>

Interfund balances represent routine and temporary cash flow assistance until amounts are transferred from investment accounts.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Transferred From	Fund Transferred To	Amount
General Fund	Nonmajor governmental funds	\$ 2,599,117
	Police Fund	<u>34,410</u>
	Total General Fund	2,633,527
Fire Fund	Nonmajor governmental funds	1,035,425
Police Fund	Nonmajor governmental funds	1,105,386
Nonmajor governmental funds	General Fund	1,436
	Nonmajor governmental funds	<u>79,898</u>
	Total nonmajor governmental funds	81,334
Shelby Manor Senior Housing Fund	General Fund	100,000
Water and Sewer Fund	General Fund	4,381
	Nonmajor governmental funds	<u>140,000</u>
	Total Water and Sewer Fund	<u>144,381</u>
	Total	<u>\$ 5,100,053</u>

Transfers provided funding for capital projects, capital acquisitions, postemployment benefit, and debt services.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 5 - Long-term Debt

The Township issues bonds to provide for the acquisition and construction of major capital facilities.

General obligation bonds are direct obligations and pledge the full faith and credit of the Township.

Installment purchase agreements are also general obligations of the government.

Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the Township is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. At December 31, 2004, the Township has approximately \$2,920,000 set aside in the Water and Sewer Fund for repayment of these bonds. In addition, there is approximately \$1,622,877 of special assessments receivable in the future; the amount of receivables delinquent at December 31, 2004 is not significant.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Governmental Activities						
General obligation bonds:						
1998 Building Authority Bonds*						
Amount of issue - \$1,515,000	4.35% -	\$110,000 -				
Maturing through 2012	5.10%	\$195,000	\$ 1,340,000	\$ (110,000)	\$ 1,230,000	\$ 110,000
Installment purchase agreements:						
Energy Conservation Note Payable						
Amount of issue - \$1,385,000	5.32%	\$162,401 -				
Maturing through 2006		\$180,382	513,939	(162,401)	351,538	171,156
Total bond obligations			1,853,939	(272,401)	1,581,538	281,156
Other long-term obligations:						
Compensated absences			902,577	23,428	926,005	253,508
Net pension obligations			976,091	(588,397)	387,694	-
Total governmental activities			3,732,607	(837,370)	2,895,237	534,664

* The 1998 Building Authority Bond was partially refunded in 2003.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 5 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
Business-type Activities						
General obligation bonds:						
1998 W&S Limited Tax Bonds						
Amount of issue - \$580,000	4.10% -	\$50,000 -				
Maturing through 2008	4.40%	\$75,000	\$ 350,000	\$ (50,000)	\$ 300,000	\$ 75,000
1998 B.A. Refunding Bonds						
Amount of issue - \$11,000,000	4.45% -	\$460,000 -				
Maturing through 2017	5.00%	\$855,000	9,690,000	(460,000)	9,230,000	510,000
1999 B.A. Serial Bonds						
Amount of issue - \$4,235,000	4.45% -	\$100,000 -				
Maturing through 2013	5.50%	\$300,000	4,025,000	(100,000)	3,925,000	100,000
Special assessment bonds:						
2001 Special Assessment Bonds						
Amount of issue - \$2,095,000	3.70% -	\$95,000 -				
Maturing through 2008	5.50%	\$215,000	1,620,000	(220,000)	1,400,000	225,000
1998 Special Assessment Bonds						
Amount of issue - \$2,580,000	4.20% -	\$275,000 -				
Maturing through 2008	4.40%	\$300,000	1,425,000	(275,000)	1,150,000	275,000
1994 Special Assessment Bonds						
Amount of issue - \$1,155,000						
Maturing through 2004	5.70%	\$150,000	150,000	(150,000)	-	-
Revenue bonds:						
1999 Revenue Bonds:						
Amount of issue - \$4,555,000	3.80% -	\$270,000				
Maturing through 2013	4.40%	\$460,000	3,550,000	(270,000)	3,280,000	320,000
2002 Revenue Bonds:						
Amount of issue - \$2,500,000	3.00% -	\$50,000				
Maturing through 2022	4.80%	\$250,000	2,500,000	(50,000)	2,450,000	50,000
2003 Refunding Bonds:						
Amount of issue - \$8,000,000	2.250% -	\$100,000 -				
Maturing through 2022	4.20%	\$700,000	8,000,000	(100,000)	7,900,000	100,000
Total bond obligations			31,310,000	(1,675,000)	29,635,000	1,655,000
Other long-term obligations - Compensated absences			94,365	(1,153)	93,212	12,647
Total business-type activities			31,404,365	(1,676,153)	29,728,212	1,667,647
Total			\$ 35,136,972	\$ (2,513,523)	\$ 32,623,449	\$ 2,202,311

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 5 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above governmental bond and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 281,156	\$ 74,191	\$ 355,347	\$ 1,655,000	\$ 1,292,680	\$ 2,947,680
2006	290,382	59,465	349,847	1,745,000	1,220,542	2,965,542
2007	155,000	46,736	201,736	1,830,000	1,146,248	2,976,248
2008	155,000	39,760	194,760	1,850,000	1,068,476	2,918,476
2009	155,000	32,863	187,863	1,655,000	995,257	2,650,257
2010-2014	545,000	52,841	597,841	9,110,000	3,790,519	12,900,519
2015-2019	-	-	-	7,540,000	1,870,288	9,410,288
2020-2024	-	-	-	4,250,000	430,850	4,680,850
Total	<u>\$ 1,581,538</u>	<u>\$ 305,856</u>	<u>\$ 1,887,394</u>	<u>\$ 29,635,000</u>	<u>\$ 11,814,860</u>	<u>\$ 41,449,860</u>

Note 6 - Restricted Assets

Restricted assets at December 31, 2004 consist of cash and cash equivalents (including bank investment pools) and are reserved in accordance with revenue bond ordinance requirements. Following is the detail of restricted assets at December 31, 2004:

Cash and cash equivalents	\$ 2,556,554
Less current liabilities payable from restricted assets:	
Bond principal	\$ (190,000)
Accrued interest	<u>(89,451)</u> <u>(279,451)</u>
Net restricted assets from bond covenants	2,277,103
Cash and cash equivalents from unspent bond proceeds	<u>4,700,000</u>
Total Water and Sewer Fund	<u>\$ 6,977,103</u>

Net assets have been reserved for restricted assets.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 7 - Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Township has purchased commercial insurance for all claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 8 - Commitments and Contingencies

Intergovernmental Cost Sharing - In the prior year, the Township entered into an intergovernmental cost-sharing agreement with two neighboring communities and the Macomb County Public Works Commissioner to fund the construction of an interceptor and wastewater disposal service. Total estimated costs are approximately \$28,000,000. Sixty percent of the cost will be shared directly by the three communities, of which the Township's portion is approximately \$6,700,000. The remaining 40 percent will be funded by the Macomb County Water Disposal District. Costs capitalized to date are approximately \$2,055,000.

Construction Commitments - The Charter Township of Shelby has an active construction project at year end unrelated to the aforementioned cost-sharing agreement. The project is the construction of water and sewer mains. At year end, the Township's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
Water and sewer systems	\$ 4,198,796	\$ 4,259,465

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 9 - Designated Fund Balances

Fund balances have been designated for the following purposes:

	Major Funds			Nonmajor Special Revenue Funds	Nonmajor Capital Projects Funds
	General Fund	Fire Fund	Police Fund		
Capital improvements	\$ 3,000,000	\$ -	\$ -	\$ -	\$ 5,794,038
Capital outlay	-	194,858	317,989	50,000	-
Roads, bridges, and sidewalk improvements	2,611,331	-	-	-	-
Beautification committee	23,833	-	-	-	-
Utility commitment	350,000	-	-	-	-
Nature center	205,634	-	-	-	-
EAC	100	-	-	-	-
Heritage garden	37,110	-	-	-	-
Total	<u>\$ 6,228,008</u>	<u>\$ 194,858</u>	<u>\$ 317,989</u>	<u>\$ 50,000</u>	<u>\$ 5,794,038</u>

Note 10 - Postemployment Benefits

The Township provides health care benefits and life insurance benefits to all general and court employees who retire at age 55 with 10 years of service, and to all police and fire employees retiring after 25 years of service, in accordance with labor contracts. The benefits provided cover the retired employee, as well as their spouse and any eligible dependents, and are paid in full by the Township until age 65. At age 65, the employee and spouse must apply for Medicare and the Township then supplies a complementary coverage policy to equal their prior benefits. Currently, 114 retirees are eligible. Expenditures for postemployment benefits are recognized as the insurance premiums become due; during the year, this amounted to \$1,255,964.

Upcoming Reporting Change

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

Note 11 - Retirement Plans

Defined Benefit Pension Plan

Plan Description

The Township contributes to the Shelby Township Police and Fire Retirement Plan, which is the administrator of a single-employer public employees' retirement plan that covers all police and fire employees of the Township. The plan provides retirement, disability, and death benefits to system members and their beneficiaries. At December 31, 2003, the date of the most recent actuarial valuation, membership consisted of 81 retirees and beneficiaries currently receiving benefits, one terminated employee entitled to benefits but not yet receiving them, and 119 current active employees. The plan does not issue a separate financial report.

Contributions

Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the system are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the system. Please refer to Note 1 for further significant accounting policies.

Plan members are required to contribute 5 percent of their annual covered salary. The Charter Township of Shelby is required to contribute at an actuarially determined rate. The obligation to contribute to and maintain the plan for these employees was established by Act No. 345 of the Public Acts of 1937, as amended, and modified by the collective bargaining agreements. Administrative costs of the plan are financed through investment earnings.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 11 - Retirement Plans (Continued)

Annual Pension Cost and Net Pension Obligation

The plan's annual pension cost and net pension obligation for the current year were as follows:

Annual required contribution	\$ 2,645,299
Interest on net pension obligation	78,087
Adjustment to annual required contribution	<u>(46,658)</u>
Annual pension cost	2,676,728
Contributions made	<u>3,265,125</u>
Decrease in net pension obligation	(588,397)
Net pension obligation - Beginning of year	<u>976,091</u>
Net pension obligation - End of year	<u><u>\$ 387,694</u></u>

The annual required contribution for the current year was determined as part of the December 31, 2002 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0 percent per year compounded annually, (b) projected salary increases of 5.5 percent to 8.5 percent per year compounded annually (both (a) and (b) include an inflation component of 5.5 percent), (c) additional projected salary increases of 0 percent to 3 percent per year, attributable to seniority/merit, and (d) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 18 years.

Three-year Trend Information of Annual Pension Cost

	2004	2003	2002
Annual pension cost (APC)	\$ 2,676,728	\$ 2,147,759	\$ 1,945,955
Percentage of APC contributed	122.0%	181.6%	125.6%
Net pension obligation	\$ 387,694	\$ 976,091	\$ 2,727,898

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 11 - Retirement Plans (Continued)

Reserves

State law requires employee contributions to be segregated and interest to be added annually. In addition, amounts must be set aside as determined by the actuary to fund benefits to retirees currently approved to receive benefits. The reserve for the Police and Fire Retirement Plan consists of the following:

	Reserved for Employee Contributions	Reserved for Employer Contributions	Reserved for Retiree Benefit Payments	Total
Balance - January 1, 2004	\$ 3,444,379	\$ (5,696,954)	\$ 35,415,339	\$ 33,162,764
Additions - Including interest	513,529	4,137,890	2,838,548	7,489,967
Transfers	-	(1,746,602)	1,746,602	-
Deductions	-	(73,094)	(3,360,196)	(3,433,290)
Balance - December 31, 2004	<u>\$ 3,957,908</u>	<u>\$ (3,378,760)</u>	<u>\$ 36,640,293</u>	<u>\$ 37,219,441</u>

Defined Contribution Pension Plan

The Township provides pension benefits to all of its full-time employees, except those employees covered by the Police and Fire Retirement System, through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. Under the terms of the agreement, the Township and the employees contribute 11 percent and 4 percent, respectively, of the employees' base salaries each month, and employees may elect to contribute additional voluntary amounts. For employees starting subsequent to July 1, 1992, the Township and the employees contribute 10 percent and 5 percent, respectively, of the employees' base salary. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested after 20 months of continuous service.

The Township's total payroll during December 31, 2004 was \$18,601,354. The current year contribution was calculated based on covered payroll of \$8,917,944, resulting in an employer contribution of approximately \$919,500 and employee contributions of approximately \$370,000.

Charter Township of Shelby

Notes to Financial Statements December 31, 2004

Note 12 - Future Minimum Lease Revenue

The Township leases a portion of its land to a private operator through the year 2044 for use as a golf course. During 2004, the Township recognized \$105,000 in revenue related to this lease.

Future annual minimum lease payments are as follows:

Years	Greater of	
	Percent of Gross Revenue	Minimum Rent
2004	3	\$ 105,000
2005-2009	3	125,000
2010-2014	4	175,000
2015-2019	4	200,000
2020-2024	4	225,000
2025-2034	5	250,000
2035-2044	7	300,000

Required Supplemental Information

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended December 31, 2004

	Original Budget	Amended Budget	Actual
Fund Balance - Beginning of year	\$ 7,907,277	\$ 7,907,277	\$ 7,907,277
Revenue			
Taxes	2,681,288	2,672,801	2,675,629
Licenses and permits	1,368,801	1,696,095	2,041,839
State distributions and grants	5,453,359	5,203,757	5,174,764
Grants from local units	397,890	458,845	408,023
Charges for services	117,912	138,385	692,127
Fines and forfeitures	2,451,800	2,420,134	2,490,054
Interest earned	200,000	225,000	260,529
Other revenue	505,362	1,036,077	571,866
Reimbursement from other funds for administrative services	394,500	394,500	394,500
Rent	511,065	524,968	539,956
Total revenue	14,081,977	14,770,562	15,249,287
Expenditures			
General government	7,891,494	7,832,080	7,437,280
Public safety	24,000	24,000	24,000
Public works	1,142,500	1,153,500	330,139
Recreation and culture	2,890,356	2,875,250	2,725,063
Capital outlay	1,838,404	1,854,360	1,831,763
Total expenditures	13,786,754	13,739,190	12,348,245
Other Financing Sources (Uses)			
Transfers in	107,000	107,000	105,817
Transfers out	(2,626,792)	(2,626,193)	(2,633,527)
Total other financing sources (uses)	(2,519,792)	(2,519,193)	(2,527,710)
Fund Balance - End of year	<u>\$ 5,682,708</u>	<u>\$ 6,419,456</u>	<u>\$ 8,280,609</u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds Year Ended December 31, 2004

<u>Fire Fund</u>	Original Budget	Amended Budget	Actual
Fund Balance - Beginning of year	\$ 5,207,286	\$ 5,207,286	\$ 5,207,286
Revenue			
Taxes	9,384,211	9,335,462	9,345,308
Charges for services	776,400	831,632	930,687
Interest earned	70,000	70,000	96,338
Other revenue	<u>48,700</u>	<u>67,966</u>	<u>86,271</u>
Total revenue	10,279,311	10,305,060	10,458,604
Expenditures			
Public safety	8,618,364	10,115,353	7,839,197
Capital outlay	<u>118,802</u>	<u>118,802</u>	<u>30,557</u>
Total expenditures	8,737,166	10,234,155	7,869,754
Other Financing Uses - Transfers out	<u>(1,035,775)</u>	<u>(1,035,775)</u>	<u>(1,035,425)</u>
Fund Balance - End of year	<u>\$ 5,713,656</u>	<u>\$ 4,242,416</u>	<u>\$ 6,760,711</u>

Charter Township of Shelby

Required Supplemental Information Budgetary Comparison Schedule Major Special Revenue Funds (Continued) Year Ended December 31, 2004

<u>Police Fund</u>	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
Fund Balance - Beginning of year	\$ 5,826,568	\$ 5,826,568	\$ 5,826,568
Revenue			
Taxes	10,543,500	10,480,706	10,497,732
Federal grants	15,000	15,000	15,203
State distributions and grants	30,000	30,000	29,683
Grants from local units	1,700	1,250	1,250
Charges for services	150,450	188,900	144,177
Interest earned	90,000	90,000	107,137
Other revenue	464,720	502,201	528,459
Total revenue	11,295,370	11,308,057	11,323,641
Expenditures			
Public safety	9,688,833	9,942,682	9,442,548
Capital outlay	181,600	181,600	131,128
Total expenditures	9,870,433	10,124,282	9,573,676
Other Financing Sources (Uses)			
Transfers in	10,000	10,000	34,410
Transfers out	(1,105,000)	(1,105,000)	(1,105,386)
Total other financing sources (uses)	(1,095,000)	(1,095,000)	(1,070,976)
Fund Balance - End of year	<u>\$ 6,156,505</u>	<u>\$ 5,915,343</u>	<u>\$ 6,505,557</u>

Charter Township of Shelby

Required Supplemental Information Pension System Schedule of Funding Progress December 31, 2004

The schedule of funding progress is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
1998	\$ 24,689,019	\$ 40,755,163	\$ 16,066,144	60.6	\$ 6,292,885	255.3
1999	28,439,989	44,407,585	15,967,596	64.0	6,543,458	244.0
2000	31,254,924	49,243,464	17,988,540	63.5	6,329,581	284.2
2001	32,848,767	52,326,180	19,477,413	62.8	7,073,837	275.3
2002	32,709,306	54,033,626	21,324,320	60.5	7,504,500	284.2
2003	34,355,443	57,430,250	23,074,807	59.8	8,413,972	274.2

The schedule of employer contributions is as follows:

Year Ended December 31	Actuarial Valuation Date - December 31	Annual Required Contribution	Percentage Contributed
1999	1997	\$ 1,680,819	104.1
2000	1998	1,628,545	100.3
2001	1999	1,626,468	136.8
2002	2000	1,836,096	133.2
2003	2001	2,057,358	189.5
2004	2002	2,645,299	123.4
2005	2003	(a)	(a)

(a) Information not available

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of December 31, 2002, the latest actuarial valuation date, follows:

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Remaining amortization period	18 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	8.00%
Projected salary increases*	5.50%-8.50%
*Includes inflation at	5.50%
Cost of living adjustments	None

Charter Township of Shelby

Note to Required Supplemental Information December 31, 2004

Note - Budgetary Information

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal year end.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Encumbrances are not included as expenditures. Budget appropriations are considered to be spent once the goods are delivered or the services rendered. The amount of encumbrances outstanding at December 31, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Charter Township of Shelby incurred no expenditures that were in excess of the amounts budgeted.

Other Supplemental Information

Charter Township of Shelby

	Nonmajor Special					
	Emergency Response	Street Lighting	Building Authority	41st District Court	Cable Television	Michigan Justice Training Grant
Assets						
Cash and investments	\$ 89,491	\$ 205,067	\$ 14,469	\$ -	\$ 657,811	\$ 8,725
Receivables - Other	-	12,441	-	-	164,126	-
Due from other funds	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-
Prepaid costs	-	-	28	-	3,242	-
Total assets	<u>\$ 89,491</u>	<u>\$ 217,508</u>	<u>\$ 14,497</u>	<u>\$ -</u>	<u>\$ 825,179</u>	<u>\$ 8,725</u>
Liabilities and Fund Balances						
Liabilities						
Vouchers payable	\$ 15,157	\$ 15,638	\$ -	\$ -	\$ 11,325	\$ -
Accrued and other liabilities	-	4	-	-	3,874	-
Due to other funds	-	-	-	-	19	-
Deferred revenue	-	61,806	-	-	-	-
Total liabilities	15,157	77,448	-	-	15,218	-
Fund Balances						
Reserved for prepaid costs	-	-	28	-	3,242	-
Unreserved:						
Undesignated	74,334	140,060	14,469	-	756,719	8,725
Designated	-	-	-	-	50,000	-
Total fund balances	<u>74,334</u>	<u>140,060</u>	<u>14,497</u>	<u>-</u>	<u>809,961</u>	<u>8,725</u>
Total liabilities and fund balances	<u>\$ 89,491</u>	<u>\$ 217,508</u>	<u>\$ 14,497</u>	<u>\$ -</u>	<u>\$ 825,179</u>	<u>\$ 8,725</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004**

Revenue Funds				Nonmajor Debt Service Fund	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Community Block Grant	Federal Forfeiture	Drug Forfeiture	Postemployment Benefits	Fire Stations	Public Improvement	Equipment Replacement	
\$ -	\$ 6,491	\$ 93,600	\$ 2,259,000	\$ -	\$ 800,276	\$ 5,001,266	\$ 9,136,196
-	-	-	-	-	-	-	176,567
-	-	-	135,000	-	-	-	135,000
94,874	-	-	-	-	-	-	94,874
-	-	-	-	-	-	-	3,270
\$ 94,874	\$ 6,491	\$ 93,600	\$ 2,394,000	\$ -	\$ 800,276	\$ 5,001,266	\$ 9,545,907
\$ 90,264	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 7,491	\$ 139,888
-	-	-	-	-	-	-	3,878
4,610	-	-	-	-	-	-	4,629
-	-	-	-	-	-	-	61,806
94,874	-	-	-	-	13	7,491	210,201
-	-	-	-	-	-	-	3,270
-	6,491	93,600	2,394,000	-	-	-	3,488,398
-	-	-	-	-	800,263	4,993,775	5,844,038
-	6,491	93,600	2,394,000	-	800,263	4,993,775	9,335,706
\$ 94,874	\$ 6,491	\$ 93,600	\$ 2,394,000	\$ -	\$ 800,276	\$ 5,001,266	\$ 9,545,907

Charter Township of Shelby

	Nonmajor Special					
	Emergency Response	Street Lighting	Building Authority	41st District Court	Cable Television	Michigan Justice Training Grant
Revenue						
Federal grants	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Taxes	-	-	-	-	-	-
State distributions and grants	67,796	-	-	-	-	13,993
Charges for services	-	156,192	-	-	648,884	-
Fines and forfeitures	-	-	-	-	-	-
Interest	705	8,515	201	-	6,007	-
Other	-	1,458	-	-	-	-
Total revenue	68,501	166,165	201	-	654,891	13,993
Expenditures						
Current:						
General government	-	-	1,829	-	-	-
Public safety	46,708	-	-	-	-	15,840
Public works	-	234,411	-	-	-	-
Recreation and culture	-	-	-	-	523,460	-
41A District Court	-	-	-	1,862,324	-	-
Capital outlay	-	-	-	26,720	19,367	-
Debt service	-	-	-	-	-	-
Total expenditures	46,708	234,411	1,829	1,889,044	542,827	15,840
Excess of Revenue Over (Under) Expenditures	21,793	(68,246)	(1,628)	(1,889,044)	112,064	(1,847)
Other Financing Sources (Uses)						
Transfers in	-	-	-	1,948,469	-	-
Transfers out	-	(1,436)	-	(59,425)	(20,473)	-
Total other financing sources (uses)	-	(1,436)	-	1,889,044	(20,473)	-
Net Change in Fund Balances	21,793	(69,682)	(1,628)	-	91,591	(1,847)
Fund Balances - Beginning of year	52,541	209,742	16,125	-	718,370	10,572
Fund Balances - End of year	\$ 74,334	\$ 140,060	\$ 14,497	\$ -	\$ 809,961	\$ 8,725

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended December 31, 2004

Revenue Funds					Nonmajor Debt Service Funds	Nonmajor Capital Projects Funds		Total Nonmajor Governmental Funds
Community Block Grant	Federal Forfeiture	Drug Forfeiture	Police and Fire Pension Contribution	Post- employment Benefits	Fire Stations	Public Improvement	Equipment Replacement	
\$ 132,372	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 132,372
-	-	-	2,665,125	-	-	-	-	2,665,125
-	-	-	-	-	-	-	-	81,789
-	-	-	-	-	-	-	-	805,076
-	-	26,302	-	-	-	-	-	26,302
-	51	1,926	-	-	-	-	-	17,405
-	-	-	-	-	-	-	19,313	20,771
132,372	51	28,228	2,665,125	-	-	-	19,313	3,748,840
6,300	-	-	-	-	-	8,445	23,470	40,044
-	-	16,099	2,665,125	-	-	-	5,967	2,749,739
-	-	-	-	-	-	-	-	234,411
24,961	-	-	-	-	-	-	18,029	566,450
-	-	-	-	-	-	-	1,325	1,863,649
101,111	-	39,336	-	-	-	15,621	319,094	521,249
-	-	-	-	-	173,385	-	-	173,385
132,372	-	55,435	2,665,125	-	173,385	24,066	367,885	6,148,927
-	51	(27,207)	-	-	(173,385)	(24,066)	(348,572)	(2,400,087)
-	-	-	-	1,234,000	173,385	74,000	1,529,972	4,959,826
-	-	-	-	-	-	-	-	(81,334)
-	-	-	-	1,234,000	173,385	74,000	1,529,972	4,878,492
-	51	(27,207)	-	1,234,000	-	49,934	1,181,400	2,478,405
-	6,440	120,807	-	1,160,000	-	750,329	3,812,375	6,857,301
<u>\$ -</u>	<u>\$ 6,491</u>	<u>\$ 93,600</u>	<u>\$ -</u>	<u>\$ 2,394,000</u>	<u>\$ -</u>	<u>\$ 800,263</u>	<u>\$ 4,993,775</u>	<u>\$ 9,335,706</u>

Charter Township of Shelby

Other Supplemental Information Combining Statement of Assets and Liabilities Agency Funds December 31, 2004

	Agency Funds						Total
	Trust and Agency	Treasurer's Agency	Current Tax Collection	41st District Court	Accounts Payable Imprest	Payroll Imprest	
Assets							
Cash and investments	\$ 102,330	\$ 1,234,616	\$ 6,059,923	\$ 266,173	\$ 28,963	\$ 63,813	\$ 7,755,818
Receivable - Other	-	-	-	-	-	6,587	6,587
Due from other funds	1,518,604	83,877	-	148,999	-	-	1,751,480
Deposits	25,000	314,139	-	22,014	-	-	361,153
Total assets	<u>\$ 1,645,934</u>	<u>\$ 1,632,632</u>	<u>\$ 6,059,923</u>	<u>\$ 437,186</u>	<u>\$ 28,963</u>	<u>\$ 70,400</u>	<u>\$ 9,875,038</u>
Liabilities							
Vouchers payable	\$ 25,784	\$ -	\$ -	\$ 108,560	\$ -	\$ 27,685	\$ 162,029
Due to other funds	-	1,632,632	1,652	-	28,963	42,715	1,705,962
Advance tax collections	-	-	6,058,271	-	-	-	6,058,271
Deposits	1,620,150	-	-	328,626	-	-	1,948,776
Total liabilities	<u>\$ 1,645,934</u>	<u>\$ 1,632,632</u>	<u>\$ 6,059,923</u>	<u>\$ 437,186</u>	<u>\$ 28,963</u>	<u>\$ 70,400</u>	<u>\$ 9,875,038</u>

March 31, 2005

Board of Trustees
Charter Township of Shelby
52700 Van Dyke Avenue
Shelby Township, MI 48316

Dear Board Members:

We have recently completed our audit of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the Charter Township of Shelby for the year ended December 31, 2004. We offer the following items of an informational nature for your consideration as the policy making body of the Township.

Financial Matters

Financial Condition

General Fund revenue exceeded expenditures by approximately \$400,000 for the year ended December 31, 2004. These results include a reduction of approximately \$400,000 in state shared revenue payments from the State of Michigan (comparing prior year and current year actual revenue) and approximately \$1.8 million dollars spent in long-term asset purchases. Fund balance in the General Fund totaled approximately \$8.3 million with \$6.2 million designated primarily for capital outlay, roads, bridges and sidewalk improvements, approximately \$151,000 reserved for prepaid costs, and approximately \$1.9 million undesignated.

In the coming years, the Township will continue to face future revenue reductions as the State's economic growth and associated revenue sharing payments decline. The Township has appropriately placed emphasis in the past on maintaining a sufficient level of fund balance to be able to adjust for unexpected and unanticipated financial changes, such as you are currently experiencing. An adequate level of fund balance positions the Township to address negative financial changes without disrupting the level of services provided to citizens or the Township's ability to fund future obligations.

State Shared Revenue

The situation in Michigan, related to the reduction in state shared revenue, is made even more tenuous given other economic factors affecting municipal finance currently and in the near future. With the exception of local governments like Shelby, with a growing tax base and room for more development, there are structural problems with the municipal finance model in the State. Municipalities in Michigan face numerous challenges to their ability to raise revenue and are subject to increasing costs not necessarily under their control. These factors would include the restricted growth of property tax revenue under Proposal A and the Headlee Amendment, decreased investment returns and increasing healthcare and employee benefit costs. These items have already impacted several municipalities in Michigan where the municipality's growth in expenditures is outpacing the growth in revenues for an extended period of time. While the Charter Township of Shelby is currently in very good financial condition, we would encourage the Township to continually review its long-range financial plans through the use of your five-year plan model in order to ensure continued financial viability over the long run.

Water and Sewer Fund

Automatic Bill Payment - Many municipalities are now providing automatic bill payment service to residents and businesses. Under this arrangement, payments are made to the municipality electronically from the payer's financial institution. At a minimum, an automatic bill payment service could be used for recurring water and sewer utility payments. We continue to encourage the Township to explore the viability of this type of arrangement.

Retiree Healthcare Benefits

The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post Employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care benefits. The intent of the new rules is to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. These new rules will apply to the *government-wide financial statements*, rather than the individual fund level. As a result, the Township will need to continue to budget only the expected cash payments, whether directly for health insurance premiums or for contributions to a pre-funding plan. For many communities, the funding of post employment benefits is the most significant financial challenge they will face in coming years. We recommend that the Township continue its proactive efforts to monitor and fund this future expenditure. The statement will not be effective until the Township's 2009 calendar year.

The Township has been proactive in the ever increasing health care cost and has set up a separate fund to save money for this future expense. Currently, this fund is a special revenue fund. The Township has the option of implementing Act 149 of 1999 for funding the retiree health care fund in order to invest these monies in accordance with the Public Employees Retirement Investment Act. Over a long period, this should significantly reduce the burden of funding the retiree health care. There are some stipulations that come with the legislation, such as a prohibition against using the funds in the future for anything other than retiree health care, and a requirement to obtain an actuarial valuation at least every five years.

Internal Controls

Designing and maintaining a sound system of internal controls over assets, as well as fraud prevention and detection, are on the forefront in today's accounting environment. As part of our audit of the Township's 2004 financial statements, we performed additional procedures as required by Statement on Auditing Standards No. 99, *Consideration of Fraud in a Financial Statement Audit* (SAS 99). While SAS 99 does not change the focus of the financial statement audit to a "fraud audit," the new standard incorporates a change in mindset for auditors to search for and identify significant fraud risk factors. SAS 99 requires auditors to perform specific procedures to search for significant fraud risk factors, including inquiries with members of the Board, administration and other employees throughout the Township, a retrospective review of accounting estimates, a detailed review of all journal entries and other related procedures. The Board should be pleased to note that the extra inquiries and testing that were required did not reveal any issues to be reported under the requirements of SAS 99.

However, we would encourage the township to continue to strengthen their internal controls especially with respect to operational procedures at off-site locations. This could be accomplished with internal auditing procedures such as periodic and surprise walkthroughs of the township's internal system at their off-site locations throughout the year. This would ensure all aspects of the township are operating as documented and are following proper procedures. Currently, testing of internal controls is performed during the time of the audit by the external auditors; however, with periodic checks of internal control, the Township would enhance the overall effectiveness of the Township's procedures and policies as a whole.

Garfield Interceptor

In 1999, the Township entered into an intergovernmental, cost-sharing agreement with two neighboring communities and the Macomb County Public Works Commission to fund the construction of the Garfield Interceptor. According to the 1999 agreement, the preliminary projected cost of this interceptor was approximately \$28,000,000, of which Shelby's direct portion would be approximately \$6,700,000. The Township currently pays \$38,000 a month to the Macomb County Public Works Commission. From the inception of this agreement, through December 31, 2004, the Township has paid a total of \$2,054,583 specifically designated for the Garfield Interceptor. This amount has been capitalized on the Township's financial statements. As of today, the Township has not received final notification of the total actual cost of the project, the Township's actual liability, how the project was funded and terms of any related debt (i.e., interest rate, years to maturity, etc.) In addition, the interceptor has been placed in operation over the past year. We strongly encourage the Township to continue to pursue obtaining the finalized data.

New Homestead Audit Program

Public Act 105 of 2003 provides new authority for local units of government and the Michigan Department of Treasury to share homestead information to determine if a resident is illegally claiming a homestead exemption on property. As you recall, following the passage of Proposal A in 1994, individuals in Michigan are allowed only one homestead for property tax purposes. A residence which is not an individual's homestead pays property tax at the non-homestead rate. We anticipate the Michigan Department of Treasury will publish additional guidance related to this new law.

We wish to thank the Township for the continued opportunity to serve as your auditors and for all the assistance and cooperation that we received from Mrs. Kathleen Moore, the financial management department and all of the Township personnel throughout the audit. If you have any questions concerning these items or wish to discuss implementation of our recommendations, please do not hesitate to call.

Yours truly,

PLANTE & MORAN, PLLC



Christina M. Kostiuk



Lisa M. Vargo